

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

W-01651B

Vail Water Company, Inc.

RECEIVED

ACC UTILITIES DIRECTOR

ANNUAL REPORT
Water

FOR YEAR ENDING

12	31	2010
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FOR COMMISSION USE

ANN 04	10
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2-17-11

COMPANY INFORMATION

Company Name (Business Name) VAIL WATER COMPANY, INC.

Mailing Address 1010 N. FINANCE CENTER DR., #200
(Street)

TUCSON

(City)

AZ

(State)

85710

(Zip)

520-571-1958

Telephone No. (Include Area Code)

520-571-1961

Fax No. (Include Area Code)

Cell No. (Include Area Code)

Email Address _____

Local Office Mailing Address 1010 N. FINANCE CENTER DRIVE, #200

(Street)

TUCSON

(City)

AZ

(State)

85710

(Zip)

520-571-1958

Local Office Telephone No. (Include Area Code)

520-517-1961

Fax No. (Include Area Code)

Cell No. (Include Area Code)

Email Address KVOLPE@ESTESCO.NET

MANAGEMENT INFORMATION

☐ **Regulatory Contact:** CHRISTOPHER VOLPE

☐ **Management Contact:** CHRISTOPHER VOLPE

Vice President/Treasurer

(Name)

(Title)

1010 N. FINANCE CENTER DRIVE

(Street)

TUCSON

(City)

AZ

(State)

85710

(Zip)

520-571-1958

Telephone No (Include Area Code)

520-571-1961

Fax No. (Include Area Code)

Cell No (Include Area Code)

Email Address KVOLPE@ESTESCO.NET

On Site Manager: MANNY OROS

(Name)

14155 E. VIA RANCHO DEL LAGO

(Street)

VAIL

(City)

AZ

(State)

85641

(Zip)

520-647-3679

Telephone No (Include Area Code)

520-647-3825

Fax No. (Include Area Code)

520-730-4730

Cell No (Include Area Code)

Email Address OPERATOR@VAILWATER.COM

Statutory Agent: DAVID MCEVOY

4560 E CAMP LOWELL

(Street)

(Name)

TUCSON

(City)

AZ

(State)

85712

(Zip)

520-326-0133

Telephone No (Include Area Code)

520-326-5938

Fax No. (Include Area Code)

Cell No. (Include Area Code)

Attorney: ANDREA L. GONZALES

(Name)

2 E. CONGRESS

(Street)

TUCSON

(City)

AZ

(State)

85701

(Zip)

520-202-7338

Telephone No (Include Area Code)

520-202-7339

Fax No. (Include Area Code)

Cell No. (Include Area Code)

Email Address _____

OWNERSHIP INFORMATION

Check the following box that applies to your company:

☐ Sole Proprietor (S)

☐ C Corporation (C) (Other than Association/Co-op)

☐ Partnership (P)

☒ Subchapter S Corporation (Z)

☐ Bankruptcy (B)

☐ Association/Co op (A)

☐ Receivership (R)

☐ Limited Liability Company

☐ Other (Describe) _____

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

☐ APACHE

☐ COCHISE

☐ COCONINO

☐ GILA

☐ GRAHAM

☐ GREENLEE

☐ LA PAZ

☐ MARICOPA

☐ MOHAVE

☐ NAVAJO

☒ PIMA

☐ PINAL

☐ SANTA CRUZ

☐ YAVAPAI

☐ YUMA

☐ STATEWIDE

UTILITY PLANT IN SERVICE

Acct. No.	DESCRIPTION	Original Cost (OC)	Accumulated Depreciation (AD)	O.C.L.D. (OC less AD)
301	Organization			-
302	Franchises			-
303	Land and Land Rights	17,750		17,750
304	Structures and Improvements	399,328	100,461	298,867
307	Wells and Springs	1,126,979	402,636	724,343
311	Pumping Equipment	1,550,355	532,481	1,017,874
320	Water Treatment Equipment			-
330	Distribution Reservoirs and Standpipes	1,621,069	281,418	1,339,651
331	Transmissions and Distribution Mains	13,822,489	2,300,967	11,521,522
333	Services	12,451	12,451	-
334	Meters and Meter Installations	904,148	162,945	741,203
335	Hydrants	477,958	64,236	413,722
336	Backflow Prevention Devices	7,901	6,221	1,680
339	Other Plant and Misc. Equipment	6,553	6,553	-
340	Office Furniture and Equipment	47,916	21,888	26,028
341	Transportation Equipment	54,807	54,538	269
343	Tools, Shop and Garage Equipment			-
344	Laboratory Equipment			-
345	Power Operated Equipment			-
346	Communication Equipment			-
347	Miscellaneous Equipment			-
348	Other Tangible Plant			-
	TOTALS	20,049,704	3,946,795	16,102,909


This amount goes on the Balance Sheet Acct. No. 108



CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR

Acct. No.	DESCRIPTION	Original Cost (1)	Depreciation Percentage (2)	Depreciation Expense (1 x 2)
301	Organization			
302	Franchises			
303	Land and Land Rights	17,750		-
304	Structures and Improvements	399,328	2.80%	11,181
307	Wells and Springs	1,126,979	3.20%	36,063
311	Pumping Equipment	1,550,355	3.60%	55,813
320	Water Treatment Equipment			
330	Distribution Reservoirs and Standpipes	1,621,069	2.00%	32,421
331	Transmissions and Distribution Mains	13,822,489	2.00%	276,450
333	Services	12,451	3.30%	-
334	Meters and Meter Installations	904,148	3.60%	32,549
335	Hydrants	477,958	3.60%	17,206
336	Backflow Prevention Devices	7,901	3.60%	284
339	Other Plant and Misc. Equipment	6,553	3.60%	-
340	Office Furniture and Equipment	47,916	6.80%	3,258
341	Transportation Equipment	54,807	13.30%	7,289
343	Tools, Shop and Garage Equipment			
344	Laboratory Equipment			
345	Power Operated Equipment			
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	TOTALS	20,049,704		472,516

This amount goes on the Comparative Statement of Income and Expense



Acct. No. 403

BALANCE SHEET

Acct. No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT AND ACCRUED ASSETS		
131	Cash	\$ 777,618	\$ 472,948
134	Working Funds		
135	Temporary Cash Investments	2,503,495	2,958,888
141	Customer Accounts Receivable	148,172	194,348
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies		
162	Prepayments	676,847	903,150
174	Miscellaneous Current and Accrued Assets	62,420	62,420
	TOTAL CURRENT AND ACCRUED ASSETS	\$ 4,168,552	\$ 4,591,754
	FIXED ASSETS		
101	Utility Plant in Service	\$ 20,027,505	\$ 20,049,704
103	Property Held for Future Use		
105	Construction Work in Progress	69,613	69,613
108	Accumulated Depreciation - Utility Plant	(3,482,623)	(3,946,795)
121	Non-Utility Property	3,500	3,500
122	Accumulated Depreciation - Non Utility		
	TOTAL FIXED ASSETS	\$ 16,617,995	\$ 16,176,022
	TOTAL ASSETS	\$ 20,786,547	\$ 20,767,776

NOTE: The Assets on this page should be equal to **Total Liabilities and Capital** on the following page.

BALANCE SHEET (CONTINUED)

Acct. No.	LIABILITIES	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT LIABILITIES		
231	Accounts Payable	\$ 128,845	\$ 79,593
232	Notes Payable (Current Portion)		
234	Notes/Accounts Payable to Associated Companies		
235	Customer Deposits	771,031	693,906
236	Accrued Taxes		
237	Accrued Interest		
241	Miscellaneous Current and Accrued Liabilities		
	TOTAL CURRENT LIABILITIES	\$ 899,876	\$ 773,499
	LONG-TERM DEBT (Over 12 Months)		
224	Long-Term Notes and Bonds		
	DEFERRED CREDITS		
251	Unamortized Premium on Debt	\$ -	\$ -
252	Advances in Aid of Construction	14,070,394	13,838,715
255	Accumulated Deferred Investment Tax Credits		
271	Contributions in Aid of Construction		
272	Less: Amortization of Contributions		
281	Accumulated Deferred Income Tax		
	TOTAL DEFERRED CREDITS	\$ 14,070,394	\$ 13,838,715
	TOTAL LIABILITIES	\$ 14,970,270	\$ 14,612,214
	CAPITAL ACCOUNTS		
201	Common Stock Issued	\$ 638,099	\$ 638,099
211	Paid in Capital in Excess of Par Value	2,445,314	2,445,314
215	Retained Earnings	2,732,864	3,072,150
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	\$ 5,816,277	\$ 6,155,563
	TOTAL LIABILITIES AND CAPITAL	\$ 20,786,547	\$ 20,767,776

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Acct. No.		PRIOR YEAR	CURRENT YEAR
	OPERATING REVENUES		
461	Metered Water Revenue	\$ 2,057,806	\$ 2,045,026
460	Unmetered Water Revenue		
474	Other Water Revenues	312,501	340,426
	TOTAL REVENUES	\$ 2,370,307	\$ 2,385,452
	OPERATING EXPENSES		
601	Salaries and Wages	\$ 250,245	\$ 238,424
610	Purchased Water		-
615	Purchased Power	211,964	211,105
618	Chemicals	2,638	1,743
620	Repairs and Maintenance	30,235	26,469
621	Office Supplies and Expense	67,226	65,948
630	Outside Services	417,170	416,892
635	Water Testing	14,624	14,220
641	Rents	15,275	8,995
650	Transportation Expenses	19,557	20,614
657	Insurance - General Liability	44,652	41,005
659	Insurance - Health and Life	21,389	16,276
666	Regulatory Commission Expense - Rate Case	8,568	5,475
675	Miscellaneous Expense	165,808	200,357
403	Depreciation Expense	471,717	472,516
408	Taxes Other Than Income		
408.11	Property Taxes	132,873	122,407
409	Income Tax		
	TOTAL OPERATING EXPENSES	\$ 1,873,941	\$ 1,862,446
	OTHER INCOME/EXPENSE		
419	Interest and Dividend Income	\$ 50,089	\$ 36,739
421	Non-Utility Income	114,961	122,486
426	Miscellaneous Non-Utility Expenses		11,546
427	Interest Expense	(4,229)	(4,491)
	TOTAL OTHER INCOME/EXPENSE	\$ 160,821	\$ 166,280
	NET INCOME/(LOSS)	\$ 657,187	\$ 689,286

COMPANY NAME	Vail Water Company	2010
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SUPPLEMENTAL FINANCIAL DATA

Long-Term Debt

	LOAN #1	LOAN #2	LOAN #3	LOAN #4
Date Issued				
Source of Loan				
ACC Decision No.				
Reason for Loan				
Dollar Amount Issued	\$ -	\$ -	\$ -	\$ -
Amount Outstanding	\$ -	\$ -	\$ -	\$ -
Date of Maturity				
Interest Rate	%	%	%	%
Current Year Interest	\$ -	\$ -	\$ -	\$ -
Current Year Principal	\$ -	\$ -	\$ -	\$ -

Meter Deposit Balance at Test Year End \$ 693,906

Meter Deposits Refunded During the Test Year \$ 153,000

COMPANY NAME	Vail Water Company	2010
Name of System:	ADEQ Public Water System Number:	10041

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (Gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-625703	100	600	614	12	8	1974
55-087817	200	700	759	14	8	1981
55-087816	300	1200	845	14	10	1981
55-087814	300	975	924	14	8	1981

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
N/A		

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
10	3	413	
20	6		
25	4		
30	7		
50	2		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
600,000	1	2500	13
550,000	1		
500,000	2		
290,000	1		
100,000	2		

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Vail Water Company	2010
Name of System:	ADEQ Public Water System Number:	10041

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2		5,434
3		
4		55,658
5		
6		159,396
8		162,005
10		16,830
12		115,138

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	3,617
3/4	95
1	22
1 1/2	21
2	37
Comp. 3	5
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	
(TOTAL)	3,797

For the following three items, list the utility owned assets in each category.

TREATMENT EQUIPMENT:

ACCUTAB TABLET PPG CHLORINATION SYSTEM WITH A .02 RESIDUAL
OF CALCIUM HYPOCHLORIDE

STRUCTURES:

ADMINISTRATIVE OFFICE 57x35 1,995 SQ FT STEEL BUILDING

OTHER:

N/A

***Note: If you are filing for more than one system, please provide separate sheets
for each system.***

COMPANY NAME	Vail Water Company	2010
Name of System	ADEQ Public Water System Number:	10041

WATER USE DATA SHEET BY MONTH FOR CALENDER YEAR 2010

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	3,667	23,943	26,605	0
FEBRUARY	3,667	21,650	23,496	0
MARCH	3,691	19,163	21,440	0
APRIL	3,687	26,480	29,321	0
MAY	3,688	27,075	31,709	0
JUNE	3,701	36,121	38,447	0
JULY	3,695	35,889	36,671	0
AUGUST	3,690	31,466	34,221	0
SEPTEMBER	3,702	29,443	32,054	0
OCTOBER	3,729	29,862	30,649	0
NOVEMBER	3,734	29,847	31,725	0
DECEMBER	3,739	26,050	28,416	0
TOTALS --->		336,989	364,754	0

What is the level of arsenic for each well in your system.

(If more than one well, please list each separately)

Well 1	n/a	mg/l
Well 2	n/a	mg/l
Well 3	0.004	mg/l
Well 5	0.002	mg/l
Well 6	0.002	mg/l
Well 8	0.004	mg/l

If system has fire hydrants, what is the fire flow requirement? 1,100 GPM for 2 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?

(☒) Yes () No

Is the Water Utility located in an ADWR Active Management Area (AMA)?

(☒) Yes () No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?

(☒) Yes () No

If yes, provide the GPCPD amount: 122 GPCD

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	Vail Water Company	2010
Name of System	ADEQ Public Water System Number:	10041

UTILITY SHUTOFFS/DISCONNECTS

MONTH		Termination without Notice R14-2-410.B	Termination with Notice R14-2-410.C	OTHER
JANUARY			13	
FEBRUARY			12	
MARCH			25	
APRIL			20	
MAY			14	
JUNE			41	
JULY			29	
AUGUST			21	
SEPTEMBER			33	
OCTOBER			33	
NOVEMBER			12	
DECEMBER			9	
TOTALS --->		0	262	0

OTHER (description):

Company Name VAIL WATER COMPANY, INC. YEAR ENDING 12/31/10

PROPERTY TAXES

Amount of actual property taxes paid during Calendar Year 2010 was: \$ 124,156

Attach to this annual report proof (e.g. property tax bills stamped "paid in full" or copies of cancelled checks for property tax payments) of any and all property taxes paid during the calendar year.

If no property taxes paid, explain below:

VERIFICATION
AND
SWORN STATEMENT
Taxes

VERIFICATION

STATE OF AZ

I, THE UNDERSIGNED
OF THE

COUNTY OF (COUNTY NAME)

PIMA

NAME (OWNER OR OFFICIAL) TITLE

KIP VOLPE, VP

COMPANY NAME

VAIL WATER COMPANY

Christopher T. Volpe

DO SAY THAT THIS ANNUAL UTILITY PROPERTY TAX AND SALES TAX REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH
12

DAY
31

YEAR
2010

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

I HEREBY ATTEST THAT ALL PROPERTY TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

I HEREBY ATTEST THAT ALL SALES TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

Christopher T. Volpe

SIGNATURE OF OWNER OR OFFICIAL

520-571-1958

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

COUNTY NAME

Pima

THIS

10th

DAY OF

MONTH

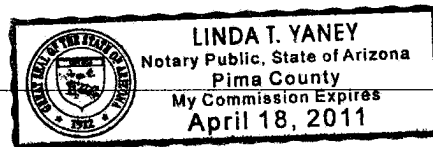
February

2011

(SEAL)

MY COMMISSION EXPIRES

Linda T. Yaney



Company Name VAIL WATER COMPANY, INC. YEAR ENDING 12/31/10

INCOME TAXES

For this reporting period, provide the following:

Federal Taxable Income Reported	<u>\$0</u>
Estimated or Actual Federal Tax Liability	<u>\$0</u>

State Taxable Income Reported	<u>\$0</u>
Estimated or Actual State Tax Liability	<u>\$0</u>

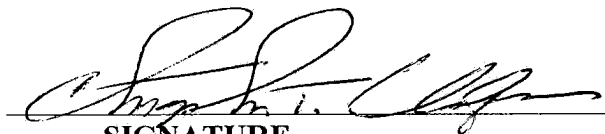
Amount of Grossed-Up Contributions/Advances:

Amount of Contributions/Advances	<u>N/A</u>
Amount of Gross-Up Tax Collected	<u>N/A</u>
Total Grossed-Up Contributions/Advances	<u>N/A</u>

Decision No. 55774 states, in part, that the utility will refund any excess gross-up funds collected at the close of the tax year when tax returns are completed. Pursuant to this Decision, if gross-up tax refunds are due to any Payer or if any gross-up tax refunds have already been made, attach the following information by Payer: name and amount of contribution/advance, the amount of gross-up tax collected, the amount of refund due to each Payer, and the date the Utility expects to make or has made the refund to the Payer.

CERTIFICATION

The undersigned hereby certifies that the Utility has refunded to Payers all gross-up tax refunds reported in the prior year's annual report. This certification is to be signed by the President or Chief Executive Officer, if a corporation; the managing general partner, if a partnership; the managing member, if a limited liability company or the sole proprietor, if a sole proprietorship.


SIGNATURE

2-10-11
DATE

Christopher T. Volpe
PRINTED NAME

Vice President
TITLE

**VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only**

VERIFICATION

STATE OF Arizona

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME) <u>Pima</u>
NAME (OWNER OR OFFICIAL) TITLE <u>Christopher T. Volpe, VP</u>
COMPANY NAME <u>Vay Water Company</u>

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2010

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

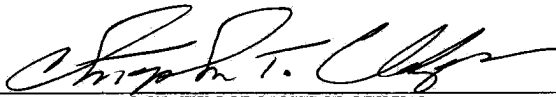
IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2010 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)

\$ 2,535,163

(THE AMOUNT IN BOX ABOVE
INCLUDES \$ 149,711
IN SALES TAXES BILLED, OR COLLECTED)

****REVENUE REPORTED ON THIS PAGE MUST
INCLUDE SALES TAXES BILLED OR
COLLECTED. IF FOR ANY OTHER REASON,
THE REVENUE REPORTED ABOVE DOES NOT
AGREE WITH TOTAL OPERATING REVENUES
ELSEWHERE REPORTED, ATTACH THOSE
STATEMENTS THAT RECONCILE THE
DIFFERENCE. (EXPLAIN IN DETAIL)**


SIGNATURE OF OWNER OR OFFICIAL
520-571-1958
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

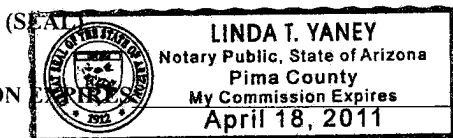
THIS

10th

DAY OF

COUNTY NAME	<u>Pima</u>
MONTH	<u>February</u>
	<u>2011</u>

MY COMMISSION




SIGNATURE OF NOTARY PUBLIC

**VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE**
Intrastate Revenues Only

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME) <i>Pima</i>	
NAME (OWNER OR OFFICIAL) <i>Christopher T. Volpe</i>	TITLE <i>Vice President</i>
COMPANY NAME <i>Vail Water Company</i>	

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
<i>12</i>	<i>31</i>	<i>2010</i>

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2010 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES \$ <i>1,906,081</i>
--

THE AMOUNT IN BOX AT LEFT
INCLUDES \$ *130,421*
IN SALES TAXES BILLED, OR COLLECTED)

*RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.

Christopher T. Volpe
SIGNATURE OF OWNER OR OFFICIAL
520-571-1958 X105
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

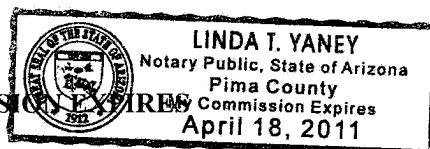
<i>10th</i>

DAY OF

NOTARY PUBLIC NAME <i>Linda T. Yaney</i>	
COUNTY NAME <i>Pima</i>	
MONTH <i>February</i>	<i>20th</i>

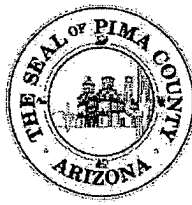
(SEAL)

MY COMMISSION EXPIRES



Linda T. Yaney
SIGNATURE OF NOTARY PUBLIC

Beth Ford
Pima County Treasurer



Patti Davidson
Chief Deputy Treasurer

PIMA COUNTY TREASURER'S OFFICE

PIMA COUNTY TAX RECEIPT

VAIL WATER CO
ATTN: CHRISTOPHER VOLPE/VICE PRESIDENT
1010 N FINANCE CENTER DR STE 200
TUCSON AZ 85710-1357

THIS IS YOUR RECEIPT FOR PAYMENT(S) OF 2009 REAL ESTATE TAXES

BOOK	MAP	PARCEL	TOTAL TAX ASSESSED	DATE
907	52	0000	\$ 130,267.55	5/3/2010

PAYMENTS

PAYMENT DATE	DESCRIPTION	TAX PAID	INTEREST PAID	FEES PAID	TOTAL
05/03/2010	SECOND HALF	\$65,133.77	\$0.00	\$0.00	\$65,133.77
	TOTAL PAID	\$65,133.77	\$0.00	\$0.00	\$65,133.77

PROPERTY ADDRESS

TAX YEAR 2009 BALANCE DUE

DESCRIPTION	AMOUNT
FIRST HALF TAX DUE	\$0.00
SECOND HALF TAX DUE	\$0.00
NSF FEE DUE	\$0.00
RECLAIMED REFUND DUE	\$0.00
TOTAL AMOUNT DUE	\$0.00

Thank you for your payment!

BETH FORD
PIMA COUNTY TREASURER

Beth Ford
Pima County Treasurer



Patti Davidson
Chief Deputy Treasurer

PIMA COUNTY TREASURER'S OFFICE

PIMA COUNTY TAX RECEIPT

VAIL WATER CO
1010 N FINANCE CENTER DR STE 200
TUCSON AZ 85710-1357

THIS IS YOUR RECEIPT FOR PAYMENT(S) OF 2009 REAL ESTATE TAXES

BOOK	MAP	PARCEL	TOTAL TAX ASSESSED	DATE
305	04	001L	\$ 199.05	5/3/2010

PAYMENTS

PAYMENT DATE	DESCRIPTION	TAX PAID	INTEREST PAID	FEES PAID	TOTAL
05/03/2010	SECOND HALF	\$99.52	\$0.00	\$0.00	\$99.52
	TOTAL PAID	\$99.52	\$0.00	\$0.00	\$99.52

PROPERTY ADDRESS

13935 E COLOSSAL CAVE RD

TAX YEAR 2009 BALANCE DUE

DESCRIPTION	AMOUNT
FIRST HALF TAX DUE	\$0.00
SECOND HALF TAX DUE	\$0.00
NSF FEE DUE	\$0.00
RECLAIMED REFUND DUE	\$0.00
TOTAL AMOUNT DUE	\$0.00

Thank you for your payment!

BETH FORD
PIMA COUNTY TREASURER

115 North Church Avenue - Tucson, Arizona 85701-1199 - Phone (520) 740-8341 - Fax (520) 884-4809

PIMA COUNTY TREASURER'S OFFICE

TAX PAYMENT RECEIPT

Paid Date 10/29/2010

Batch Number I101029022

Paid by Code 01

VAIL WATER COMPANY
1010 N FINANCE CENTER SUITE 200
TUCSON AZ 85710

Method Amount
CT \$58,922.30

Total Amount Paid \$58,922.30

Total Tax Amount Paid \$58,922.30

Total Interest Amount Paid \$0.00

Total Refund Due \$0.00

PARCEL NUMBER	TAX PAID	INTEREST PAID	TOTAL PAID	PAYMENT TYPE	LEGAL DESCRIPTION
30504001L	\$103.29	\$0.00	\$103.29	FIRST HALF	PT OF SW4 SE4 LYG N OF & ADJ TO COLOSSAL CAVE RD .50 AC SEC 10-16-16 (WELLSITE)
30504001V	\$10.83	\$0.00	\$10.83	FIRST HALF	CTRL PTN W2 NW4 .28 AC SEC 10- 16-16 (11536/1623)
30504001W	\$10.83	\$0.00	\$10.83	FIRST HALF	CTRL PTN S2 NE4 .20 AC SEC 10- 16-16
305046280	\$10.83	\$0.00	\$10.83	FIRST HALF	RANCHO DEL LAGO BOOSTER SITE
30506004D	\$10.83	\$0.00	\$10.83	FIRST HALF	N CTRL PTN S2 SE4 .15 AC SEC 4- 16-16
30508001D	\$10.83	\$0.00	\$10.83	FIRST HALF	S80' N131.31' W80' E1147.41' NE4 .15 AC SEC 8-16-16
305110280	\$15.37	\$0.00	\$15.37	FIRST HALF	WELLSITE BNG W116.16' OF E1230.76' OF S125' OF SE4 SE4 .33 AC SEC 14-16-16 (ACC 0053195-8) TOTAL VALUE OF OPERATING PROPERTY - TAXPAYER GROUP

					NO 075
30512008B	\$14.19	\$0.00	\$14.19	FIRST HALF	SUCCESS 100' X 100' WELLSITE BLK 1 TOTAL VALUE OF OPERATING PROPERTY - TAXPAYER GROUP NO 075 (ACC 0053195-8)
305140110	\$14.19	\$0.00	\$14.19	FIRST HALF	TUCSON PARK NO 1 WELLSITE ADJ TO NW LINE LOT 2 TOTAL VALUE OF OPERATING PROPERTY-TAXPAYER GROUP NO 075 (ACC 0053195-8)
30520001C	\$48.82	\$0.00	\$48.82	FIRST HALF	RINCON VIEW ESTATES S125' N140' LOT 1
305392090	\$34.91	\$0.00	\$34.91	FIRST HALF	N100' OF W100' OF E2367' OF NE4 .23 AC SEC 10-17-16 (FORMERLY 305-39-030K) TOTAL VALUE OF OPERATING PROPERTY-GROUP 075 (ACC 0053195-8) (FORMERLY 305-39- 0550)
305490270	\$108.39	\$0.00	\$108.39	FIRST HALF	NEW TUCSON UNIT NO 29 LOT 1 BLK 20
305900930	\$14.19	\$0.00	\$14.19	FIRST HALF	VAIL RANCH LOT 0061
907520000	\$58,514.80	\$0.00	\$58,514.80	FIRST HALF	TOTAL VALUE OF OPERATING PROPERTY - TAXPAYER GROUP NO 075 (ACC 0053195-8)

VAIL WATER COMPANY
AUDITED FINANCIAL STATEMENTS
December 31, 2010 and 2009

Vail Water Company
Audited Financial Statements
December 31, 2010 and 2009

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Statements of Revenue, Expenses and Accumulated Earnings - Income Tax Basis	4
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INDEPENDENT AUDITORS' REPORT

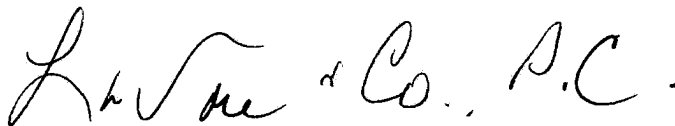
Board of Directors
Vail Water Company
Tucson, Arizona

We have audited the accompanying statements of assets, capitalization and liabilities - income tax basis of Vail Water Company (an Arizona S-Corporation) as of December 31, 2010 and 2009, and the related statements of revenue, expenses and accumulated earnings - income tax basis for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the basis of accounting the Company uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, capitalization, and liabilities of Vail Water Company at December 31, 2010 and 2009 and its revenue, expenses and accumulated earnings for the years then ended, on the basis of accounting described in Note 2.



La Voie & Company, P.C.
Tucson, Arizona
January 29, 2011

Vail Water Company

STATEMENTS OF ASSETS, CAPITALIZATION AND
LIABILITIES - INCOME TAX BASIS

		December 31,	
		2010	2009
ASSETS			
Utility Plant:			
Land	\$	17,750	\$ 17,750
Plant and equipment (Note 3)		20,031,954	20,009,755
Construction work-in-progress (Note 4)		69,613	69,613
Total Utility Plant		20,119,317	20,097,118
Less accumulated depreciation		(5,648,945)	(4,884,261)
Net Utility Plant		14,470,372	15,212,857
Other Assets:			
Water storage and recharge credits (Note 9)		903,150	676,847
Other		3,500	3,500
		906,650	680,347
Current Assets:			
Cash		472,948	777,618
Customer accounts receivable		194,348	148,172
Receivable from annexation group		62,420	62,420
Total Current Assets		729,716	988,210
Noncurrent Assets:			
Money market funds (Note 5)		277,914	285,070
Certificates of deposit (Note 5)		2,680,974	2,218,425
		2,958,888	2,503,495
Total Assets	\$	<u>19,065,626</u>	\$ <u>19,384,909</u>

The accompanying notes are an integral part of these financial statements.

	December 31,	
	2010	2009
CAPITALIZATION & LIABILITIES		
Capitalization:		
Common stock (\$10 par value; 1,000,000 shares authorized; 63,810 shares issued and outstanding)	\$ 638,099	\$ 638,099
Capital-in-excess of stated value	2,445,314	2,445,314
Accumulated earnings	<u>1,369,999</u>	<u>1,331,226</u>
Total Capitalization	4,453,412	4,414,639
Current Liabilities:		
Accounts payable and accrued expenses	79,593	128,845
Customer deposits, current portion (Note 6)	<u>136,000</u>	<u>153,000</u>
Total Current Liabilities	215,593	281,845
Customer Deposits, long-term (Note 6)	557,906	618,031
Advances For Construction:		
Line extension agreements (Note 7)	12,338,632	12,488,649
Hook-up fee tariffs (Note 8)	1,108,372	1,161,664
Sub-station advance	30,000	30,000
Annexation participation agreement	<u>361,711</u>	<u>390,081</u>
Total Advances For Construction	<u>13,838,715</u>	<u>14,070,394</u>
Total Liabilities	<u>14,612,214</u>	<u>14,970,270</u>
Total Capitalization and Liabilities	<u>\$ 19,065,626</u>	<u>\$ 19,384,909</u>

The accompanying notes are an integral part of these financial statements.

Vail Water Company

STATEMENTS OF REVENUE, EXPENSES
AND ACCUMULATED EARNINGS
- INCOME TAX BASIS

	For The Years Ended December 31,	
	2010	2009
Operating Revenue:		
Water sales	\$ 2,085,154	\$ 2,096,898
Fees and other income	<u>298,751</u>	<u>269,169</u>
Total Operating Revenue	2,383,905	2,366,067
Operating Expenses:		
Administrative and general	416,151	440,932
Long term water storage	172,963	143,003
Professional services	431,112	431,794
Depreciation and amortization (Note 3)	645,432	660,269
Purchased power	211,105	211,964
Property and other taxes	122,407	132,873
Repairs and maintenance	16,247	17,897
Other	<u>11,963</u>	<u>14,974</u>
Total Operating Expenses	<u>2,027,380</u>	<u>2,053,706</u>
Net Income From Operations	356,525	312,361
Other Income (Expense):		
Interest Income	36,739	48,745
Interest Expense	<u>(4,491)</u>	<u>(4,229)</u>
Net Income	388,773	356,877
Distributions to shareholders	(350,000)	(140,000)
Accumulated earnings, beginning of year	<u>1,331,226</u>	<u>1,114,349</u>
Accumulated earnings, end of year	<u>\$ 1,369,999</u>	<u>\$ 1,331,226</u>

The accompanying notes are an integral part of these financial statements.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

Note 1 - ORGANIZATION HISTORY AND NATURE OF OPERATIONS

Vail Water Company (the "Company"), formerly known as Del Lago Water Company, was formed on June 10, 1959 as a corporation under the laws of the State of Arizona. The Company is engaged in the regulated utility business of public water supply. The Company is regulated by several Arizona agencies, including the Arizona Corporation Commission (ACC), which has jurisdiction with respect to rates, services, accounting procedures and other matters. The Company is operating under a rate order effective May 1, 2000.

The Company provides groundwater to approximately 3,800 customers in Vail, Arizona. As a consequence of utilizing groundwater, the Company is subject to various water conservation requirements authorized pursuant to the Arizona Revised Statutes 45-566. In addition, the Company has a fully executed, judicially validated, municipal subcontract with the Central Arizona Water Conservation District and the United States of America for the purchase of up to 786 acre feet per annum of Central Arizona Project Water. Effective January 1, 2008, the Company entered into a fully executed, judicially validated, municipal subcontract with the Central Arizona Water Conservation District and the United States of America, for the purchase of an additional 1,071 acre feet per annum of Central Arizona Project Water. This brings the total per annum acre feet of Central Arizona Project Water to 1,857.

Under a Decision and Order dated November 10, 2005, the Department of Water Resources of the State of Arizona designated the Company as having an assured water supply of 3,749 acre feet. Certain conditions apply including on going reporting by the Company to the Department of Water Resources.

The Company owns nine registered wells, four of which provide water to customers. The Company is dependent upon adequate water sources either from the ground or from purchase of Central Arizona Project Water.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements have been prepared on the basis of accounting that the Company uses to file its income tax return. The basis differs from generally accepted accounting principles (GAAP) in the following ways:

- a) The tax basis of accounting requires that contributions in aid of construction (whether or not made by the utility's shareholders) received after June 12, 1996, are not taxable when received and have a zero tax basis to the Company:
 - 1) if not included in the utility's rate base for rate making purposes,
 - 2) if used to acquire or construct property before the end of the second year following receipt of the contribution, and
 - 3) if certain conditions concerning the keeping of records are met.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

For GAAP, a regulated entity should capitalize costs if it is possible that future revenue will be provided to recover the costs and record a liability for revenue that provides recovery of expected future costs. Under GAAP, this deferred revenue, recorded as a liability, should be recognized in income as related costs are incurred.

b) The tax basis of accounting expenses certain costs when paid under the economic performance rules. GAAP accounting requires the recognition of expenses as incurred.

c) The tax basis of accounting uses specific statutory lives for depreciation purposes. GAAP requires assets to be depreciated over the assets' estimated useful lives.

d) The tax basis of accounting uses the direct write-off method for bad debts while GAAP uses the reserve method.

Plant and Equipment - Plant and equipment are stated at cost and are depreciated using straight-line and accelerated methods as allowed by the Internal Revenue Code over statutory lives of the applicable assets (Note 3).

Income Taxes - The stockholders of the Company have elected to have the corporation taxed under the provisions of Subchapter S of the Internal Revenue Code. Accordingly, the separately stated items of income and deductions of the corporation will be reported on the income tax returns of the individual stockholders.

Advances and Contributions in Aid of Construction - Outside parties, generally customers and developers, make payments to the Company to fund certain capital expenditures to provide water to new customers. Amounts received are recorded as liabilities. Generally, as new customers begin to receive service, most of these amounts are refundable for limited periods of times. After the Company has paid all required refunds, the remaining balances are recorded as contributions in aid of construction. Contributions in aid of construction are amortized to income over the lives of the respective plant assets. Nonrefundable amounts received by the Company are recorded as contributions in aid of construction, as discussed under Basis of Accounting, paragraph a), above.

Concentrations of Credit Risk - In the normal course of business, the Company extends unsecured credit to customers.

The Company holds its cash balances in four financial institutions. Accounts at these institutions are insured up to \$250,000 by the FDIC. At December 31, 2010, the Company's uninsured bank balances totaled \$652,000.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications - Certain amounts for 2009 have been reclassified to conform to the 2010 presentation.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

Note 3 - PLANT AND EQUIPMENT

Plant and equipment at December 31 consists of:

	<u>2010</u>	<u>2009</u>	Estimated Useful Lives
Structures and improvements	\$ 399,328	\$ 399,328	20-40
Wells and springs	1,126,979	1,126,979	20-40
Pumping equipment	1,558,256	1,556,379	20-40
Distribution reservoirs and standpipes	1,621,069	1,621,069	20-40
Transmission and distribution mains	13,822,489	13,822,489	20-40
Hydrants	477,958	477,958	20-40
Meters	904,148	883,826	20-40
Other equipment and furniture	<u>121,727</u>	<u>121,727</u>	5-7
	<u>\$20,031,954</u>	<u>\$20,009,755</u>	

Depreciation expense on the Statement of Revenue, Expenses and Accumulated Earnings is net of the amortization of expired contributions in aid of construction discussed in Note 6 as follows:

	<u>2010</u>	<u>2009</u>
Depreciation expense	\$767,918	\$772,025
Amortization of expired contributions in aid of construction	<u>(122,486)</u>	<u>(111,756)</u>
	<u>\$645,432</u>	<u>\$660,269</u>

Note 4 - CONSTRUCTION WORK-IN-PROGRESS

Construction work-in-progress typically consists of water mains, transmission and distribution lines and reservoirs. Construction work-in-progress is funded by advances for construction.

Note 5 - NONCURRENT ASSETS

The money market funds and certificates of deposit are restricted for the following purposes at December 31:

	<u>2010</u>	<u>2009</u>
Hookup tariff (Note 8)	\$ 277,914	\$ 285,070
CAP hookup and service charge (Note 9)	<u>2,680,974</u>	<u>2,218,425</u>
	<u>\$2,958,888</u>	<u>\$2,503,495</u>

Vail Water Company
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

Note 6 - CUSTOMER DEPOSITS

Customers are required to make meter, service line, and guarantee deposits when service is initiated. Meter and service line deposits are subject to the Company's 2000 rate order and are refundable at a rate of 10% per year.

Guarantee deposits are refunded after one year of satisfactory water payments. The guarantee deposits bear interest, which is periodically paid to the customers. Customer deposits at December 31 were:

	<u>2010</u>	<u>2009</u>
Meter	\$610,386	\$694,686
Service line	420	520
Guarantee	<u>83,100</u>	<u>75,825</u>
	693,906	771,031
Less current portion	<u>(136,000)</u>	<u>(153,000)</u>
	<u>\$557,906</u>	<u>\$618,031</u>

The schedule of estimated deposit refunds payable to customers for each of the next five years and in the aggregate, as of December 31, is as follows:

	<u>Annual Refund</u>
2010	\$136,000
2011	63,000
2012	50,000
2013	45,000
2014	40,000
Thereafter	<u>359,906</u>
	<u>\$693,906</u>

Note 7 - LINE EXTENSION AGREEMENTS

Developers and customers, on behalf of the Company, have constructed line extensions and necessary plant to provide service to their property. The Company agrees to refund amounts, up to the cost of such agreements, over 10 to 30 years based upon 10% to 20% of gross annual revenue from water sales to the customers serviced by the lines. At the expiration of this period any unrefunded balance remains with the Company and is classified as contributions in aid of construction. Agreements with remaining balances in the amount of \$138,000 and \$172,000 expired during 2010 and 2009, respectively.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

Note 8 - HOOK-UP FEE TARIFFS

On January 14, 1998, the Arizona Corporation Commission approved an off-site facilities hook-up fee tariff, initially applicable to the south service area, until such time as the north and south systems were physically connected. The interconnection of the two systems was completed and accepted by Pima County DEQ on March 14, 2002. The hook up fee tariff is now being charged throughout the Company's service area. Customers have advanced funds to the Company for these hook-up fees. The fees are a non-refundable charge assessed to new connections requiring a main extension.

Note 9 - CENTRAL ARIZONA PROJECT

As a condition of the May 2000 rate order, the Company agreed to begin recharging its CAP water allocation within six months. As a result of this condition, the Company entered into a contract with the Central Arizona Water Conservation District for the provision of incentive recharge water. The contract is subject to the terms and conditions of the original municipal subcontract entered into between the parties. In order to recover its associated costs, the May 2000 rate order approved a CAP hookup fee for all new line extensions and subdivisions north of well No. 3, and a CAP service charge of \$.32 per 1,000 gallons of usage that applies to all customers. Following the interconnection of the systems north and south of well No. 3, the CAP hookup fee will also apply to all customers. The Company collected \$97,000 and \$93,000 of CAP hookup fees during 2010 and 2009, respectively. The CAP service charge is to be segregated in an interest bearing account and used solely for the purpose of paying CAP holding and M&I expenses.

The Company has entered into a contract to recharge its entire CAP allocation for the purpose of accumulating long-term storage credits. Excess CAP recharged over current usage accumulates as long-term storage credits. During 2009, the Company purchased 4,000 acre feet of long-term storage credits from the City of Tucson for \$489,000. The Company had 6,612 and 6,022 acre feet of long-term storage credits as of December 31, 2010 and 2009, respectively.

Note 10 - RELATED PARTY TRANSACTIONS

During 2010 and 2009, the Company charged Del Lago Golf, LLC, an entity owned by certain stockholders of the Company, \$76,000 and \$83,000, respectively, for water usage, storage credits, and energy use. The amounts in customer accounts receivable from this entity at December 31, 2010 and 2009 was \$20,000 and \$30,000, respectively.

The Company entered into a lease arrangement with Del Lago Golf, LLC, an entity owned by certain shareholders of the Company, to lease 155 and 227 acre feet of long-term storage credits in 2010 and 2009, respectively.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010 and 2009

Note 10 - RELATED PARTY TRANSACTIONS (Continued)

The Company has entered into an agreement for management services with a corporation controlled by a stockholder of the Company. The management agreement expired December 31, 2010 and required the Company to pay \$8.50 per customer per month in exchange for certain accounting and administrative functions. Management services paid under the contract were \$387,000 and \$377,000 for 2010 and 2009, respectively. Management services are included in professional services. At December 31, 2010 and 2009, \$0 and \$32,000 respectively, are included in accounts payable and accrued expenses. A new agreement was entered into for 2011 at \$8.50 per customer.

The Company entered into a ten-year ground lease with Del Lago Golf, LLC, an entity owned by certain stockholders of the Company. The lease calls for rate increases of 3% each March 1. Rent expense for 2010 and 2009 was \$6,500 and \$6,300, respectively.

The Company also rented a backhoe from Del Lago, LLC for 2010 and 2009 in the amount of \$2,000 and \$8,000, respectively.

Note 11 - STOCK TRANSFER RESTRICTIONS

The stockholders have entered into a Stockholders' Agreement, which establishes certain transfer restrictions on the stock of the Company as follows:

- a) Stockholders may not assign, sell, pledge, encumber, give or otherwise transfer, or alienate any shares to another entity if such transfer would revoke the Company's S Corporation tax status.
- b) Stockholders may transfer their shares to, or for the benefit of, an immediate family member subject to certain restrictions of the Agreement.
- c) Stockholders may transfer all or any number of shares to one or more members of the stockholder group.
- d) The Agreement provides certain stock transfer restrictions in the event that a stockholder shall die, become permanently disabled or become subject to another event defined as an Involuntary Lifetime Transfer in the Agreement.

Note 12 - PENSION PLAN

The Company entered into a salary deferral plan under IRC Section 401(k). Participants must be 21 and have six months of service to enter the Plan. The Company made no contributions to the Plan for 2010 or 2009.